



South Peninsula Office Market

South Peninsula Leasing Activity Remains Largely Unchanged from Previous Quarter

The South Peninsula office market achieved net positive leasing absorption for only the third time in the last 12 quarters. During the first quarter, net positive absorption was approximately 1.9 million square feet. Gross absorption was approximately 2.9 million square feet. These large quarter-over-quarter increases are not indicative of the region’s true leasing activity, as they can be attributed to only two owner-occupied projects: Google’s Bay View Campus (1.1 million square feet) and LinkedIn’s campus at South Middlefield (1.0 million square feet). The South Peninsula’s net absorption without these completions would have been close to negative 265,000 square feet, and total gross absorption would have been approximately 718,000 square feet. Without the completion of these two major projects, gross leasing activity was essentially flat from the previous quarter but still almost double from one year ago.

We have seen an overall increase in tenant demand this quarter which will lead to a significant increase in leasing volumes within the next couple of quarters. Due to overall global economic and societal concerns, a real sense of urgency is lacking as it relates to making important CRE transactional decisions. Vacancy rates continued to drop. A continued trend that held steady through every quarter since the second quarter of 2021, the fourth consecutive drop.

Current Conditions

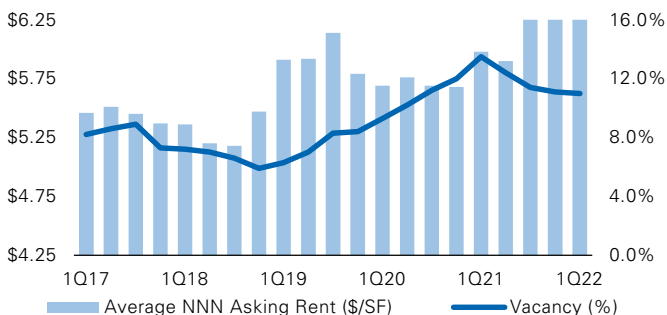
- Leasing activity in the first quarter of 2022 shows only slight increase over previous quarter
- Scheduled returns to office continue with regularity; yet to have significant effect on transaction volume
- COVID-19 mostly in rearview mirror; masks mandates ending

Market Summary

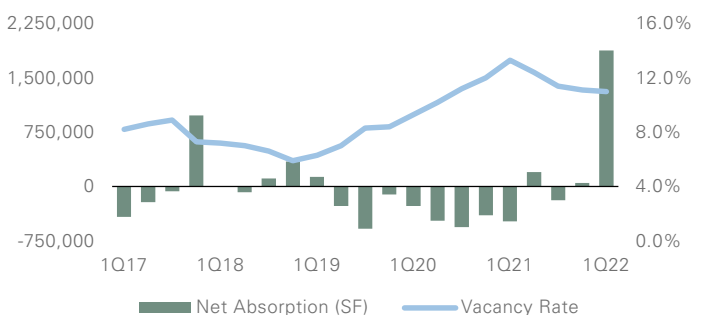
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	38.6M	36.3M	36.2M	➔
Vacancy Rate	11.0%	11.1%	13.3%	⬇
Qtr Net Abs (SF)	1.9M	48K	- 483K	⬆
Avg NNN Ask Rent/SF	\$6.33/SF	\$6.37/SF	\$5.98/SF	➔
Under Const (SF)	1.4M	2.5M	1.4M	⬆

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF)



RESEARCH 1Q 2022

After approximately two years of uncertainty and multiple false starts, many companies are now returning to the office or, at minimum, setting plans to return to the office imminently. Uber, Meta, Google, Apple and Microsoft all have enacted 'office-centric' plans. Others, like Salesforce, Zoom, Lyft, Amazon and DoorDash, have enacted 'flexible return' plans. All the companies mentioned have significantly increased their square footage footprint in the Bay Area since early 2020, the start of the pandemic. As mentioned above, this should lead to continued increases in overall demand and, subsequently, increases in overall leasing activity.

There were 107 transactions this quarter, equal to that of last previous quarter and almost 30.0% more from one year ago. Of the 107 transactions, 13 are greater than 10,000 square feet, compared to 18 last quarter. Aside from the owner-occupied projects in Mountain View, as it relates to leasing activity, Palo Alto was once again the bright spot in the region with close to 357,000 square feet of gross absorption and 16,000 square feet net positive. The continued activity in Palo Alto further drops the vacancy rate to 14.0%, down from its pandemic high of 17.7%. The 357,000 square feet of gross absorption is the highest number since the fourth quarter of 2017. This is the fourth consecutive quarter of positive net absorption in Palo Alto after only achieving the same once in the previous eight quarters.

Most of the significant transactions during the pandemic were in the professional service sector. An increase in the diversity of

business sectors transacting continues to be noted as tech demand is trying to break through. Notable transactions above 20,000 square feet include: Norwest Venture Partners (36,230 square feet); SambaNova Systems (24,000 square feet - expansion); Didi Research America (36,500 square feet); and Alation Inc. (32,000 square feet).

As expected, the overall asking rate remained relatively flat. Higher-end leasing still proves to be the most active as companies continue to chase Class A, newly constructed or under-construction options in amenitized and transit-oriented submarkets along the Peninsula. Approximately 72.0% of the office space leased was classified as Class A, not accounting for the two owner-occupied projects which were also Class A.

Look for continued demand for high-quality spaces from all business sectors and the continued return of tech demand throughout 2022.

Outlook

- Increased occupancy as return to office continually ramps up throughout 2022 and beyond.
- Tenant improvements will outpace construction cost increase; triple-digit tenant improvement allowances are here to stay.

Select Lease/User Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Confidential Tenant	650 Page Mill Rd	Palo Alto – Stanford Research Park	Lease Renewal	191,836
Didi Research America	450 National Ave	Mountain View – South Middlefield	Direct Lease	36,422
Norwest Venture Partners	1300 El Camino Real	Menlo Park – Downtown	Direct Lease	36,228
Alation Inc	3 Lagoon Dr	Redwood Shores	Extension/Expansion	31,898
Industrious Office	3223 Hanover Dr	Palo Alto – Stanford Research Park	Sublease	26,000
SambaNova Systems	2200 Geng Rd	Palo Alto – Bayshore	Lease Expansion	23,901
Wayfair	150 Evelyn Ave	Mountain View – Downtown	Direct Lease	20,255
CenterView Partners	1302 El Camino Real	Menlo Park – Downtown	Direct Lease	17,378

Select Investment Sale Transactions

Building(s)	Market	Sale Price	\$/SF	Square Feet
Shores Center (100 Marine Pkwy, 1 & 3 Twin Dolphin Dr)	Redwood Shores	\$82,750,000	\$570	145,213
379 Lytton Ave	Palo Alto – Downtown	\$539,000,000	\$1,557	34,619
711-719 Colorado Ave	Palo Alto – California Ave	\$7,379,500	\$982	6,588

Overall Submarket Statistics									
	Total Inventory (SF)	Total Vacancy (SF)	Sublease Vacancy (SF)	Total Vacancy Rate	Total Availability Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	Total NNN Asking Rent (Price/SF)	Class A NNN Asking Rent (Price/SF)
Los Altos	1,075,573	163,743	4,943	15.22%	16.70%	15,251	6,279	\$4.98	\$5.78
Downtown	509,664	96,462	2,500	18.93%	18.93%	6,300	-878	\$5.53	\$5.92
El Camino Corridor	497,227	63,367	2,443	12.74%	15.93%	8,951	7,157	\$4.38	\$5.48
Foothill Corridor	68,682	3,914	0	5.70%	5.70%	0	0	\$3.68	-
Menlo Park	6,585,581	629,939	130,140	9.57%	10.53%	111,775	-20,359	\$7.83	\$8.41
Downtown	1,401,334	190,005	8,383	13.56%	14.24%	67,298	58,750	\$8.31	\$9.60
Sand Hill Road	1,210,812	144,816	33,725	11.96%	11.96%	19,600	9,002	\$10.31	\$10.31
Middlefield Road	944,446	133,643	75,876	14.15%	14.79%	3,878	-74,021	\$7.55	\$7.55
Highway 101	3,028,989	161,475	12,156	5.33%	6.92%	20,999	-14,090	\$5.45	\$5.65
Mountain View	11,004,106	1,218,905	358,102	11.08%	13.39%	2,273,269	1,946,189	\$6.08	\$6.70
Downtown	1,665,822	362,704	107,174	21.77%	22.43%	85,247	9,977	\$7.17	\$7.50
Central	431,490	90,377	0	20.95%	20.95%	0	-2,469	\$4.58	\$7.00
Shoreline	2,927,692	25,991	2,580	0.89%	0.89%	4,917	2,461	\$2.93	-
South Middlefield	4,509,431	358,292	0	7.95%	13.34%	2,183,105	2,140,927	\$5.52	\$5.65
El Camino Corridor	1,469,671	381,541	248,348	25.96%	25.96%	0	-204,707	\$5.47	\$5.67
Palo Alto	9,099,680	1,282,182	330,223	14.09%	16.96%	356,882	16,162	\$7.01	\$7.54
Downtown	2,610,534	333,229	129,244	12.76%	17.79%	51,644	-37,034	\$8.84	\$9.25
East Palo Alto	668,279	196,823	25,285	29.45%	29.45%	8,234	8,234	\$7.30	\$7.30
Stanford Research Park	3,230,695	392,259	89,735	12.14%	14.97%	238,383	6,938	\$7.09	\$7.09
California Avenue	1,219,670	180,462	15,415	14.80%	14.98%	34,720	15,393	\$5.57	\$6.11
Bayshore	1,370,502	179,409	70,544	13.09%	15.76%	23,901	22,631	\$3.50	\$4.02
Redwood City	6,133,389	640,077	155,095	10.44%	12.33%	32,524	-49,427	\$5.29	\$6.24
Downtown	2,904,356	498,175	100,855	17.15%	20.24%	20,597	-31,055	\$6.11	\$7.10
Seaport	1,834,596	99,771	44,354	5.44%	5.90%	7,141	-17,495	\$2.69	\$2.50
Southern Area	1,394,437	42,131	9,886	3.02%	4.32%	4,786	-877	\$3.93	\$4.00
Redwood Shores	4,699,134	305,723	68,160	6.51%	8.64%	73,972	-18,102	\$4.34	\$4.38
SOUTH PENINSULA	38,597,463	4,240,569	1,046,663	10.99%	13.09%	2,863,673	1,880,742	\$6.33	\$6.90

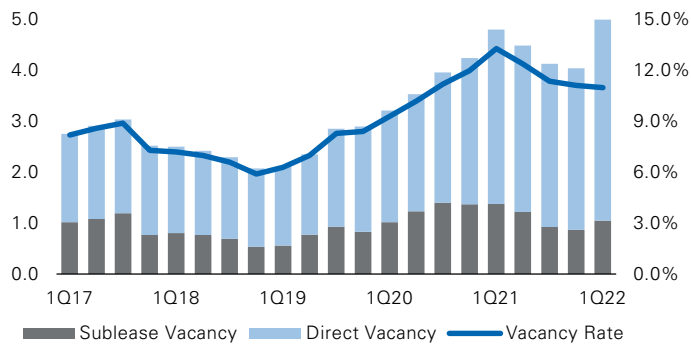
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Class A Submarket Statistics									
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy (SF)	Sublease Vacancy (SF)	Total Vacancy Rate	Total Availability Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	Class A NNN Asking Rent (Price/SF)
Los Altos	541,411	0	100,685	2,500	18.60%	21.52%	12,501	6,367	\$5.78
Downtown	324,654	0	79,717	2,500	24.55%	24.55%	6,300	166	\$5.92
El Camino Corridor	216,757	0	20,968	0	9.67%	16.98%	6,201	6,201	\$5.48
Foothill Corridor	0	0	0	0	0.00%	0.00%	0	0	-
Menlo Park	5,337,500	154,000	540,458	130,140	10.13%	11.16%	95,743	-32,966	\$8.41
Downtown	982,566	154,000	138,535	8,383	14.10%	14.21%	62,787	57,102	\$9.60
Sand Hill Road	1,210,812	0	144,816	33,725	11.96%	11.96%	19,600	9,002	\$10.31
Middlefield Road	491,028	0	126,349	75,876	25.73%	26.96%	3,316	-74,021	\$7.55
Highway 101	2,653,094	0	130,758	12,156	4.93%	6.74%	10,040	-25,049	\$5.65
Mountain View	8,662,114	803,000	1,002,352	337,704	11.57%	14.51%	2,208,511	1,945,596	\$6.70
Downtown	1,158,472	0	313,837	107,174	27.09%	28.04%	63,011	4,803	\$7.50
Central	146,721	0	23,347	0	15.91%	15.91%	0	0	\$7.00
Shoreline	2,289,084	0	0	0	0.00%	0.00%	0	0	-
South Middlefield	4,140,328	803,000	316,529	0	7.65%	13.52%	2,145,500	2,145,500	\$5.65
El Camino Corridor	927,509	0	348,639	230,530	37.59%	37.59%	0	-204,707	\$5.67
Palo Alto	6,185,405	43,340	891,415	224,540	14.41%	16.51%	267,121	-13,477	\$7.54
Downtown	1,589,977	21,407	215,668	98,189	13.56%	15.80%	10,324	-27,707	\$9.25
East Palo Alto	668,279	0	196,823	25,285	29.45%	29.45%	8,234	8,234	\$7.30
Stanford Research Park	3,099,693	21,933	392,259	89,735	12.65%	15.60%	238,383	6,938	\$7.09
California Avenue	528,182	0	69,495	11,331	13.16%	13.16%	10,180	-942	\$6.11
Bayshore	299,274	0	17,170	0	5.74%	6.78%	0	0	\$4.02
Redwood City	4,253,227	420,000	296,001	114,886	6.96%	8.67%	3,327	-21,773	\$6.24
Downtown	1,771,866	420,000	242,326	76,011	13.68%	17.79%	0	-25,100	\$7.10
Seaport	1,507,343	0	38,875	38,875	2.58%	2.58%	0	0	\$2.50
Southern Area	974,018	0	14,800	0	1.52%	1.52%	3,327	3,327	\$4.00
Redwood Shores	4,313,830	0	300,491	68,160	6.97%	9.29%	73,972	-18,102	\$4.38
SOUTH PENINSULA	29,293,487	1,420,340	3,131,402	877,930	10.69%	12.83%	2,661,175	1,865,645	\$6.90

Historical Vacancy Rates								
	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
South Peninsula	10.2%	11.2%	12.0%	13.3%	12.4%	11.4%	11.1%	11.0%
Los Altos	7.7%	10.8%	14.2%	13.5%	12.5%	16.3%	17.1%	15.2%
Menlo Park	10.2%	11.1%	14.8%	14.0%	11.7%	10.1%	9.3%	9.6%
Mountain View	9.9%	10.1%	8.2%	9.1%	8.7%	10.4%	11.5%	11.1%
Palo Alto	12.6%	14.1%	14.2%	17.7%	17.3%	16.3%	15.3%	14.1%
Redwood City	5.7%	6.8%	9.1%	11.5%	10.8%	8.9%	8.9%	10.4%
Redwood Shores	12.1%	13.6%	14.3%	13.6%	12.8%	7.7%	6.5%	6.5%

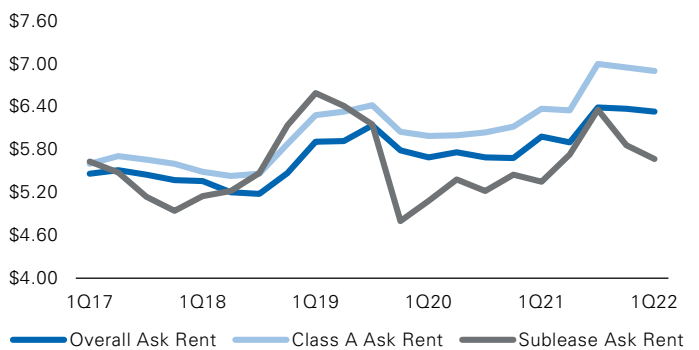
Vacancy Breakdown

SQUARE FEET, MILLIONS



Average Asking Rents

WEIGHTED, NNN, MONTHLY



Historical NNN Asking Rents

	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
South Peninsula	\$5.76	\$5.69	\$5.68	\$5.98	\$5.90	\$6.39	\$6.37	\$6.33
Los Altos	\$4.80	\$4.30	\$4.27	\$5.25	\$5.09	\$5.26	\$5.02	\$4.98
Menlo Park	\$7.42	\$7.55	\$7.38	\$7.79	\$7.94	\$7.88	\$7.88	\$7.83
Mountain View	\$4.73	\$4.83	\$5.23	\$5.30	\$5.31	\$5.85	\$6.13	\$6.08
Palo Alto	\$6.89	\$6.72	\$6.63	\$6.63	\$6.88	\$6.96	\$6.98	\$7.01
Redwood City	\$4.97	\$4.96	\$4.86	\$5.23	\$4.68	\$5.13	\$4.71	\$5.29
Redwood Shores	\$3.61	\$3.59	\$3.57	\$3.57	\$3.53	\$3.90	\$3.86	\$4.34

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Historical Gross Absorption								
	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
South Peninsula	575,256	111,924	523,763	396,604	677,122	886,579	673,724	2,863,673
Los Altos	6,100	789	4,005	9,840	17,881	23,081	11,863	15,251
Menlo Park	54,399	43,568	77,538	120,900	139,139	168,951	112,621	111,775
Mountain View	60,991	31,629	186,013	19,986	127,465	95,229	62,488	2,273,269
Palo Alto	243,916	13,133	198,707	84,623	274,890	159,313	295,678	356,882
Redwood City	37,028	9,257	9,507	109,102	48,910	425,844	94,534	32,524
Redwood Shores	172,822	13,548	47,993	52,153	68,837	14,161	66,540	73,972

Historical Net Absorption								
	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
South Peninsula	-470,951	-562,216	-397,234	-482,681	201,434	-188,670	47,738	1,880,742
Los Altos	-3,869	-32,913	-43,120	-24,517	5,731	-42,001	-9,335	6,279
Menlo Park	-98,188	-100,124	-233,274	-9,019	80,185	85,688	53,443	-20,359
Mountain View	-219,194	-44,603	109,623	-90,536	37,743	-277,721	-117,139	1,946,189
Palo Alto	-23,869	-197,070	-61,159	-281,258	40,652	45,103	81,224	16,162
Redwood City	-94,998	-109,705	-135,707	-79,519	9,537	46,778	-10,760	-49,427
Redwood Shores	-13,696	-77,801	-33,597	2,168	27,586	-46,517	96,540	-18,102

For more information:

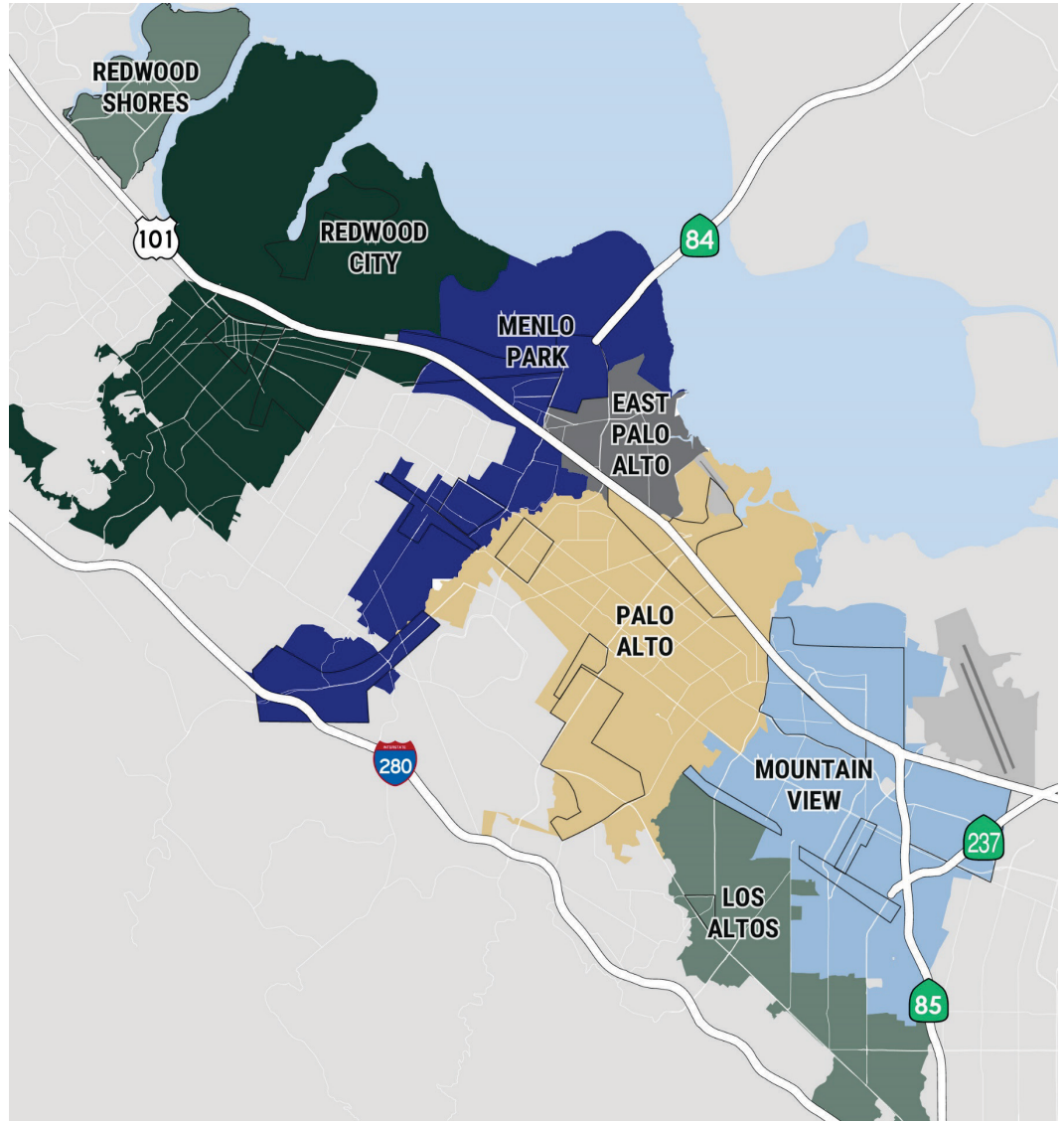
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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at ngkf.com/research.

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